

Opening Statement  
Rep. Ed Royce (CA-40)  
"The Stock Option Accounting Reform Act"  
3 March 2004

Chairman Baker, I would like to thank you for holding this timely hearing on the expensing of employee stock options. Mr. Chairman you should be commended for introducing H.R. 3574, The Stock Option Accounting Reform Act.

By all accounts, the Financial Accounting Standards Board ("FASB") soon will require firms to expense the value of employee stock options, based on complex formulas that use subjective estimates to arrive at that value. In other words, companies will have to estimate the value of illiquid derivatives and then subtract that value from net income. In a world where Congress is trying to help investors by mandating transparency in financial statements, it seems to me that FASB is headed down the wrong path.

In addition to the troublesome accounting issues with expensing stock options, there is even a more powerful argument to preserve stock options in their current form. If companies are required to expense stock options the painful reality is that many companies will cease issuing options to rank-and-file employees. These stock options have served two valuable purposes. First, they allow companies to possess a powerful tool for recruitment, retention, and increased performance. Second, they have provided an opportunity for rank-and-file employees to gain real economic profit for their significant contributions to the success of their company.

I look forward to working with Chairman Baker and others to help protect employee stock options. I yield back.